
Spending Affordability Briefing

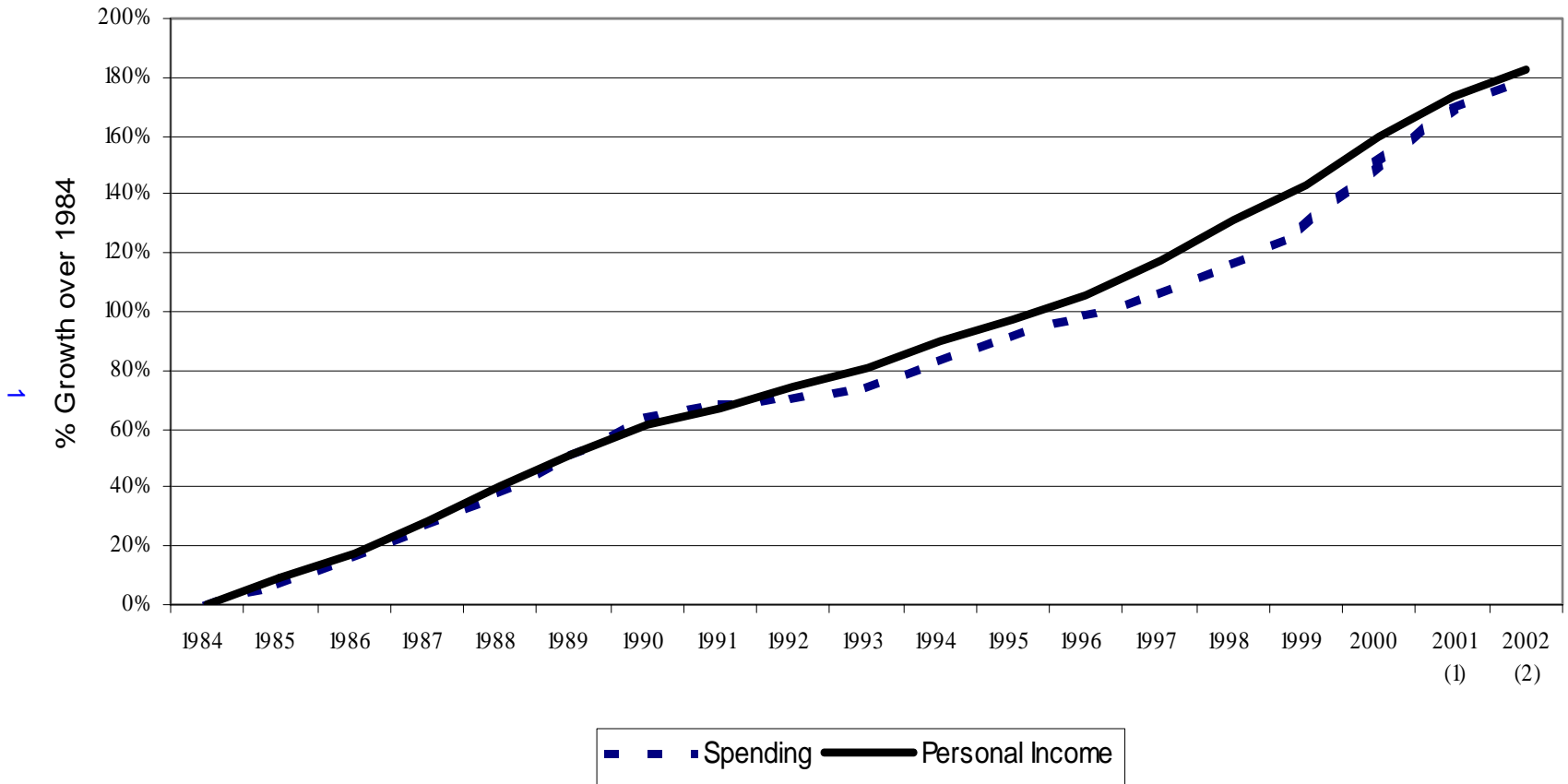
Department of Legislative Services

Office of Policy Analysis

Annapolis, Maryland

November 12, 2002

Growth in Spending under Spending Affordability



(1) This is the 2001 session SAC appropriation utilizing the new method for calculating the SAC limit.

(2) Personal income for CY 2002 has been estimated by the Department of Legislative Services.

Executive Summary

General Fund: Recent History and Outlook

Fiscal 2001 to 2004

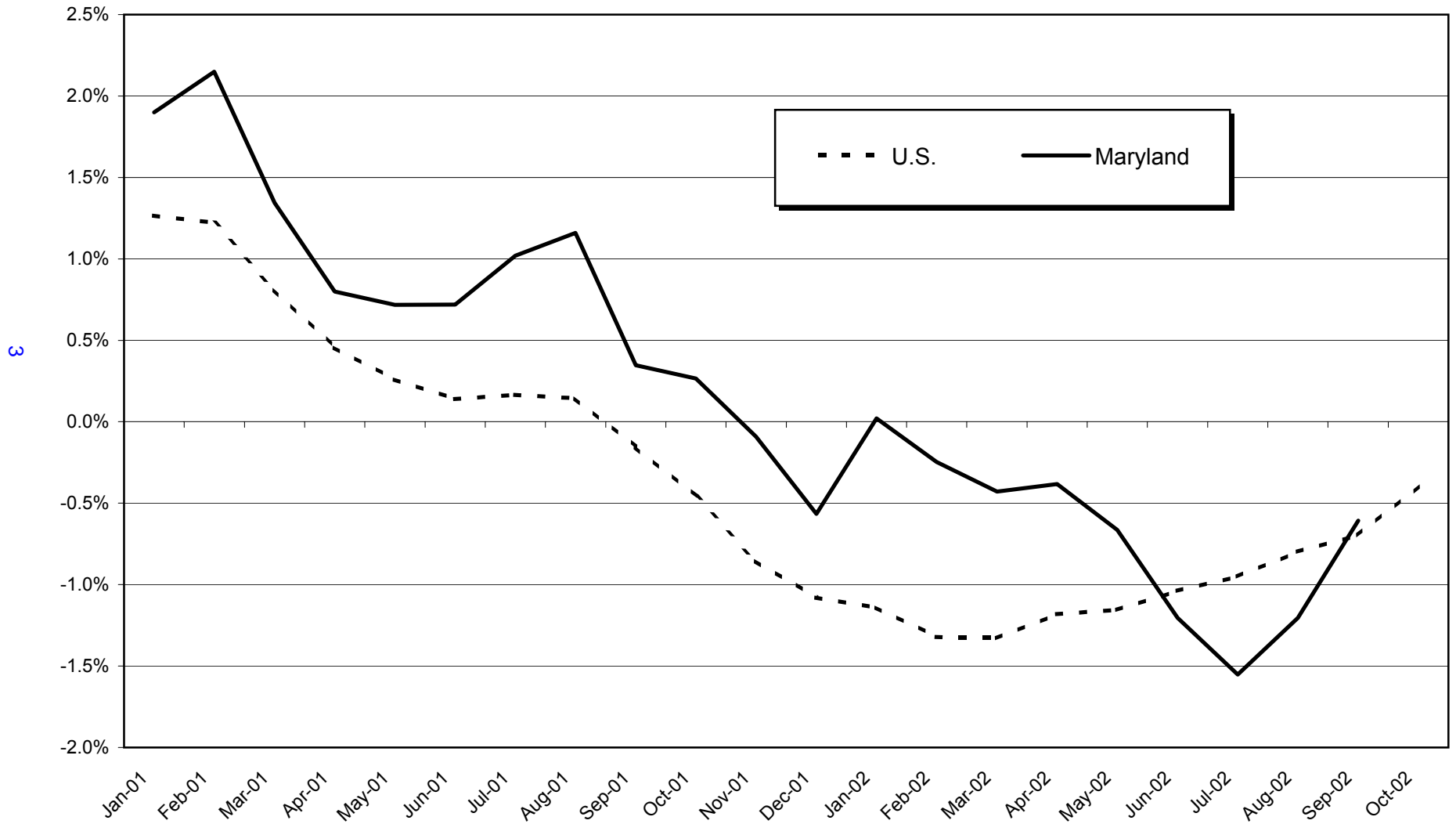
(\$ in Millions)

	Actual		Forecast	
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Funds Available				
Current Revenues	\$9,810	\$9,504	\$9,432	\$10,029
Beginning Fund Balance	936	538	309	-
Transfers to General Fund	30	814	334	-
Subtotal Funds Available	10,776	10,857	10,075	10,029
Appropriations, Deficiencies and Cost Containment				
Operating Costs	9,281	10,004	10,434	11,149
Capital	640	366	50	47
Appropriations to Reserve Fund	316	177	181	-
Subtotal Spending	10,238	10,548	10,665	11,196
Closing Balance /Projected Shortfall	\$538	\$309	(\$590)	(\$1,167)

Reserve Fund Activity				
Appropriations to Reserve Fund	\$316	\$177	\$181	-
Transfers to General Fund	30	533	249	-
Net Change	286	(356)	(68)	-
Estimated Rainy Day Fund Balance -- June 30	888	548	494	507

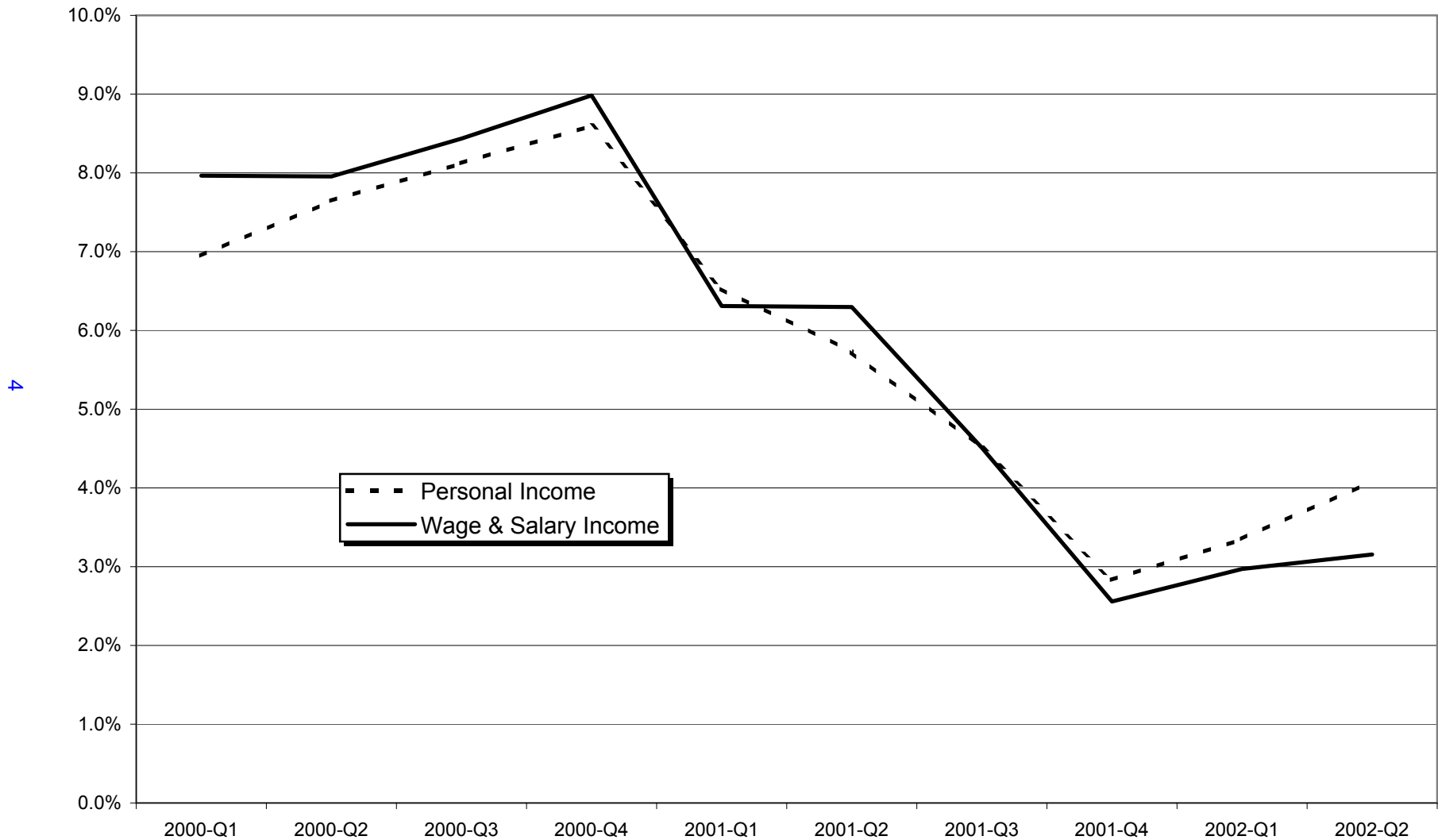
U.S. and Maryland Employment: 2001-2002

Year-over-Year Percent Change



Maryland Personal Income: 2000-2002

Year-over-Year Percent Change



Economic Forecasts

Year-over-Year Percent Change

Calendar <u>Year</u>	U.S. Real Gross Domestic <u>Product</u>	----- Maryland -----		Wage and Salary <u>Income</u>
		<u>Employment</u>	<u>Personal Income</u>	
1998	4.3%	2.5%	6.5%	7.1%
1999	4.1%	2.7%	5.5%	6.6%
2000	3.8%	2.7%	7.8%	8.3%
2001	0.3%	0.8%	4.9%	4.9%
2002E	2.3%	-0.6%	3.2%	2.3%
2003E	2.5%	1.1%	4.6%	4.5%
2004E	3.7%	1.9%	5.3%	5.7%
2005E	3.1%	1.9%	5.4%	5.6%

Source: Forecast of U.S. gross domestic product from Economy.com, Inc. (November 2002). Forecast of Maryland employment and personal income from the Department of Legislative Services.

Fiscal 2002 General Fund Revenues
(\$ in Millions)

Source	Actual	----- Fiscal 2002 -----			Percent Change
	FY 2001	Estimate*	Actual	Difference	FY 2001-2002
Personal Income Tax	\$5,133.7	\$4,989.1	\$4,771.6	-\$217.4	-7.1%
Sales and Use Tax ⁽¹⁾	2,626.8	2,635.5	2,642.5	6.9	0.6%
State Lottery	385.0	396.7	413.1	16.3	7.3%
Corporate Income Tax	374.4	245.2	273.2	28.0	-27.0%
Business Franchise Taxes	167.4	157.4	145.2	-12.2	-13.3%
Insurance Premiums Tax	190.4	192.7	193.7	1.1	1.7%
Estate & Inheritance Taxes	168.8	171.6	184.7	13.1	9.4%
Tobacco Tax ⁽²⁾	205.6	210.4	209.9	-0.5	2.1%
Alcohol Beverages Tax	24.5	25.1	25.7	0.6	5.0%
Motor Vehicle Fuel Tax	12.0	12.0	12.3	0.3	2.3%
District Courts	69.6	70.8	72.6	1.8	4.3%
Clerks of the Court	39.5	40.2	42.6	2.4	7.8%
Hospital Patient Recoveries	66.2	87.7	96.4	8.7	45.5%
Interest on Investments	140.6	72.6	71.5	-1.1	-49.1%
Miscellaneous	197.8	180.4	201.0	20.6	1.6%
Total Current Revenues	\$9,802.4	\$9,487.5	\$9,356.1	-\$131.5	-4.6%
GAAP Transfer	0.0	119.5	119.5	0.0	n.a.
Tax Amnesty	0.0	28.5	28.5	0.1	n.a.
Grand Total	\$9,802.4	\$9,635.5	\$9,504.0	-\$131.4	-3.0%

* From the Board of Revenue Estimates, March 2002, with adjustments for legislative action at the 2002 session.

(1) During the second half of fiscal 2002, 100% of the sales tax on short-term rental vehicles went to the Transportation Trust Fund (TTF), an increase from 45%. Also, fiscal 2002 revenues reflect the impact of the tax-free week in August 2001, which was estimated to have cost the State \$5.1 million.

(2) SB 856 (2002 session) increased the State tobacco tax \$0.34 effective June 1, 2002. Approximately \$7.9 million in additional revenue was received in fiscal 2002 because of the tax increase, including \$313,000 in floor tax payments in May and June.

Fiscal 2003 General Fund Revenues
(\$ in Millions)

<u>Source</u>	<i>Fiscal Year through October</i>			
	<u>FY 2002</u>	<u>FY 2003</u>	<u>\$ Difference</u>	<u>% Difference</u>
Personal Income Tax	\$992.3	\$993.3	\$1.0	0.1%
Sales and Use Tax	653.4	675.3	21.8	3.3%
State Lottery	121.2	134.4	13.2	10.9%
Corporate Income Tax	35.9	51.6	15.7	43.8%
Business Franchise Taxes	37.5	36.6	-0.9	-2.5%
Insurance Premiums Tax	46.4	53.0	6.7	14.4%
Estate & Inheritance Taxes	64.2	50.8	-13.4	-20.9%
Tobacco Tax ⁽¹⁾	53.5	67.9	14.5	27.0%
Alcohol Beverages Tax	6.6	6.2	-0.3	-4.9%
Motor Vehicle Fuel Tax	2.1	2.2	0.0	0.8%
District Courts	23.9	23.9	-0.1	-0.2%
Clerks of the Court	12.6	13.9	1.3	10.7%
Hospital Patient Recoveries ⁽²⁾	6.1	3.4	-2.7	-44.7%
Interest on Investments	16.8	5.5	-11.3	-67.2%
Miscellaneous	29.0	26.3	-2.7	-9.4%
Total Current Revenues	\$2,101.5	\$2,144.3	\$42.8	2.0%
Tax Amnesty	6.1	0.0	-6.1	n.a.
Grand Total	\$2,107.7	\$2,144.3	\$36.6	1.7%

(1) Fiscal 2003 reflects the tobacco tax increase of \$0.34 which went into effect on June 1, 2002. It includes about \$11 million in floor tax revenues. In fiscal 2003 \$80.5 million of tobacco tax revenue will be put in a special fund to pay for local education aid. The monthly revenues in fiscal 2003 have been adjusted by deducting a pro-rated portion of that \$80.5 million.

(2) Includes revenues from Medicare, insurance, and sponsors only.

General Fund Revenue Projections
(\$ in Millions)

<u>Source</u>	FY 2002	---- FY 2003 Estimate ----			% Change	FY 2004	% Change
	<u>Actual</u>	<u>May*</u>	<u>November</u>	<u>\$ Diff.</u>	<u>FY02-03</u>	<u>Estimate</u>	<u>FY03-04</u>
Personal Income Tax	\$4,771.6	\$5,072.0	\$4,773.0	-\$299.0	0.0%	\$5,002.2	4.8%
Sales and Use Tax ⁽¹⁾	2,642.5	2,767.5	2,725.5	-42.0	3.1%	2,861.5	5.0%
State Lottery	413.1	430.0	432.3	2.3	4.7%	443.2	2.5%
Corporate Income Tax	273.2	302.3	299.2	-3.1	9.5%	355.3	18.8%
Business Franchise Taxes	145.2	168.6	151.5	-17.2	4.3%	157.8	4.2%
Insurance Premiums Tax	193.7	196.8	207.5	10.7	7.1%	214.0	3.2%
Estate & Inheritance Taxes	184.7	159.8	182.3	22.5	-1.3%	180.6	-0.9%
Tobacco Tax ⁽²⁾	209.9	212.9	203.4	-9.6	-3.1%	267.4	31.5%
Alcohol Beverages Tax	25.7	25.0	25.7	0.7	0.0%	26.0	1.2%
∞ Motor Vehicle Fuel Tax	12.3	12.1	12.4	0.3	0.9%	12.7	2.3%
District Courts	72.6	72.1	73.8	1.7	1.6%	75.0	1.6%
Clerks of the Court	42.6	38.6	45.5	6.9	6.8%	44.2	-2.9%
Hospital Patient Recoveries ⁽³⁾	96.4	63.9	63.9	0.0	-33.7%	78.8	23.3%
Interest on Investments	71.5	70.3	40.1	-30.2	-44.0%	44.7	11.4%
Miscellaneous ⁽⁴⁾	201.0	177.8	188.6	10.8	-6.2%	226.1	19.9%
Transfer Tax ⁽⁵⁾	0.0	47.3	47.3	0.0	n.a.	47.3	0.0%
Heritage Tax Credit ⁽⁶⁾	0.0	n.a.	-40.0	0.0	n.a.	-8.0	-80.0%
Total Current Revenues	\$9,356.1	\$9,816.9	\$9,431.8	-\$385.1	0.8%	\$10,028.8	6.3%
GAAP Transfer	119.5	0.0	0.0	0.0	n.a.	0.0	n.a.
Tax Amnesty	28.5	0.0	0.0	0.0	n.a.	0.0	n.a.
Grand Total	\$9,504.0	\$9,816.9	\$9,431.8	-\$385.1	-0.8%	\$10,028.8	6.3%

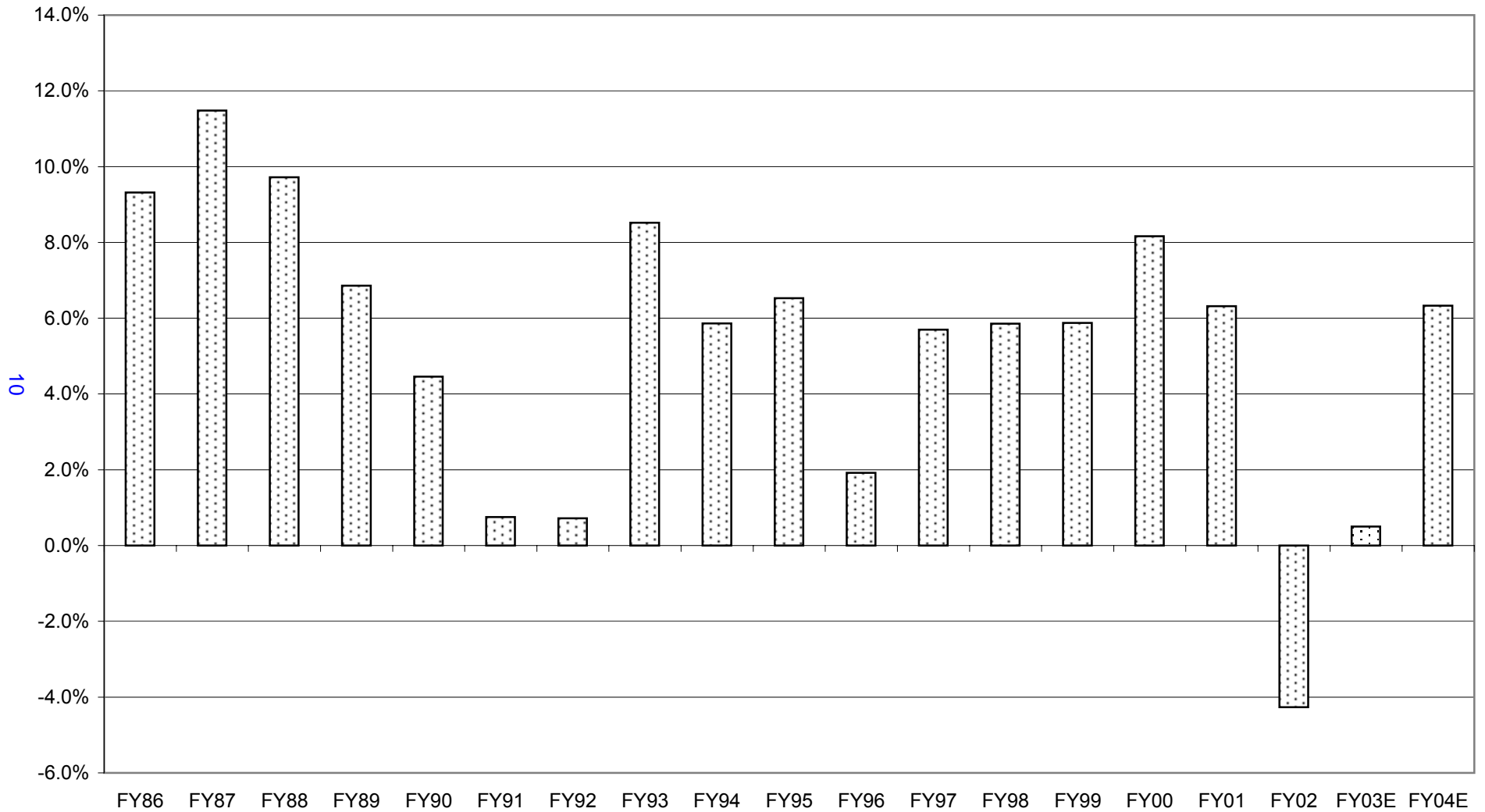
* From the Board of Revenue Estimates, March 2002, with adjustments for legislative action at the 2002 session.

Footnotes for General Fund Revenue Projections

- (1) During the second half of fiscal 2002, 100% of the sales tax on short-term rental vehicles went to the Transportation Trust Fund (TTF). SB 323 (2002 session) changes that percentage back to 45% beginning in fiscal 2003.
- (2) SB 856 (2002 session) increased the State tobacco tax \$0.34 effective June 1, 2002. In fiscal 2003, \$80.5 million of tobacco tax revenue is placed in a special fund for local education aid. In fiscal 2004, all tobacco tax revenue will once again be in the general fund.
- (3) SB 323 (2002 session) stipulates that \$14.0 million of disproportionate share payments in fiscal 2003 be put in a special fund used for the State's mental hygiene deficit. In fiscal 2004, all disproportionate share payments will once again be in the general fund.
- (4) SB 772 (2002 session) moves workers' compensation fees to a special fund beginning in fiscal 2003. HB 135 (2002 session) moves public service company fees to a special fund beginning in fiscal 2003. SB 323 (2002 session) moves security interest filing fees, special license plate fees, and uninsured motorist penalty fees back into the general fund beginning in fiscal 2003. SB 323 also reduced the time period for property to be declared abandoned from five years to four in fiscal 2003 and from four years to three in fiscal 2004. Beginning in fiscal 2004, local reimbursements for teachers' retirement costs associated with federally funded positions move back into the general fund.
- (5) SB 323 (2002 session) stipulates that \$47.3 million of State transfer tax revenue be credited to the general fund in fiscal 2003 and 2004. Transfer tax revenue is normally credited entirely to a special fund for land preservation programs.
- (6) The Department of Legislative Services (DLS) estimates that about \$20 to \$25 million was claimed for the heritage structure rehabilitation tax credit in fiscal 2002. Based on data from the Department of Housing and Community Development, DLS estimates that an additional \$48 million in credits will likely be claimed in fiscal 2003 and 2004 over and above the amount claimed in fiscal 2002.

General Fund Revenues*: Fiscal 1986-2004

Year-over-Year Percent Change



* Excludes transfers (FY 1990-97 and FY 2002) and the Medicaid provider tax (FY 1991-1993). FY 2003 and 2004 are Department of Legislative Services' estimates.

Fiscal 2003 General Fund Summary

(\$ in Millions)

	<u>End of 2002 Session</u>	<u>Current Forecast</u>	<u>Difference</u>
Fiscal 2003 Beginning Fund Balance	\$428	\$309	-\$118
DLS Projected Revenue Revision		-385	-385
DLS Anticipated Deficiency Appropriations		-100	<u>-100</u>
11 Projected General Fund Balance at Close of Fiscal 2003	\$14	-\$590	-\$603

Potential Fiscal 2003 General Fund Deficiencies

(\$ in Millions)

<u>Program</u>	<u>Dollars</u>
Mental Health: The deficit is attributable to:	\$36.4
<ul style="list-style-type: none"> Fiscal 2002 bills which rolled into fiscal 2003 (\$8 million); and Higher than anticipated fee-for-service expenditures (\$26 million) and an unbudgeted increase in provider rates (\$2.4 million). 	
Overestimate of Reversions: \$55 million in anticipated reversions is unrealistic given past experience and cost containment.	25.0
Foster Care: Deficit is attributable to higher than anticipated placement costs (\$10.1 million) and overestimates of federal funds (\$6 million).	16.1
Department of Human Resources: Fiscal 2003 budget makes unrealistic assumptions about federal fund attainment.	13.7
Public Safety: There are three separate components of the deficiency:	4.7
<ul style="list-style-type: none"> Increased costs of inmate medical contract (\$1.3 million). Mandated payments to the counties for inmates sentenced to a local correctional facility for more than 3 months but not more than 12 months. The aggregate per diem rate is expected to increase by 25% exceeding the increase assumed in the budget (\$2.8 million). The State is required to reimburse each county by formula for medical expenses that exceed \$25,000 for each inmate confined in a local correctional facility, regardless of whether the inmate has been sentenced (\$0.5 million). 	
Other: Salary and overtime costs at the Military Department (\$1.6 million); additional staffing for the Public Defender (\$1.5 million); and lead abatement grants for Baltimore City (\$1.0 million)	4.1
Total	\$100.0

2004 Baseline Budget Forecast Assumptions

Baseline Budget Concepts

- ! Current laws, policies, and practices are continued.
- ! Inflationary increases are recognized.
- ! Large one-time purchases and non-recurring PAYGO expenditures are removed.
- ! Anticipated deficiencies are identified.
- ! Federal mandates and multi-year commitments are observed.
- ! Legislation enacted at the prior session is funded.
- ! Non-discretionary changes in workload are recognized.
- ! Full year costs of programs started during the previous year are included.
- ! Amendments in the current year affecting ongoing expenditures are recognized.
- ! Positions and operating expenses associated with new facilities are recognized.
- ! Employee turnover is adjusted to reflect recent experience.

Caseload Assumptions

	<u>2002</u>	<u>2003</u>	<u>2004</u>	Percent Change <u>FY 03-04</u>
Pupil Enrollment *	806,944	810,502	818,293	1.0%
Medicaid	466,124	482,797	501,556	3.9%
Children's Health	101,272	116,463	125,780	8.0%
Temporary Cash Asst.	73,135	72,257	71,534	-1.0%
Foster Care/Adoption	13,596	13,965	14,350	2.8%

* Data for 2002, 2003, and 2004 reflect 9/00, 9/01, and 9/02 (est.) enrollments respectively.

2004 Baseline Budget Forecast Assumptions (Cont.)

Inflation Assumptions

- ! Employee Health Insurance (14%)
- ! Medical Contracts and Supplies (5%)
- ! Prescription Drugs for State Facilities (11%)
- ! Food (2%)

Employee Compensation

- ! Remove funds for one-time fiscal 2003 bonus.
- ! Savings from fiscal 2003 position abolitions are accounted for.
- ! Hiring freeze continues in fiscal 2004.
- ! Merit increases of 2% and 4% based on salary plan.
- ! Fully fund deferred compensation and pay for performance programs.
- ! No general salary increase for fiscal 2004.
- ! Retirement rates reflect rates approved by Board of Trustees in October.

Other Assumptions

- ! No increase in costs or reduction in funding related to Congressional re-authorization of Temporary Assistance for Needy Families (TANF) funding is assumed.
- ! Sufficient Cigarette Restitution Funds exist to maintain programs at fiscal 2003 funding levels.

State Expenditures -- General Funds
(\$ in Millions)

<u>Category</u>	<u>Work. App.</u> <u>FY 2002</u>	<u>Leg. Appr.</u> <u>FY 2003</u>	<u>Baseline</u> <u>FY 2004</u>	<u>\$ Diff.</u> <u>03 to 04</u>	<u>% Diff.</u> <u>03 to 04</u>
Debt Service	\$204.0	\$183.9	\$199.0	\$15.1	8.2%
Aid to Local Governments					
General Government	200.9	228.9	212.2	-16.7	-7.3%
Community Colleges	178.5	188.9	198.1	9.1	4.8%
Education/Libraries	2,847.3	3,036.3	3,392.6	356.3	11.7%
Health	56.9	61.9	63.1	1.2	1.9%
	3,283.7	3,516.1	3,865.9	349.9	10.0%
Entitlements					
Foster Care Payments	137.8	132.9	168.8	35.9	27.0%
Assistance Payments	55.5	62.7	62.7	0.0	0.0%
Medical Assistance	1,547.0	1,600.4	1,791.1	190.7	11.9%
Property Tax Credits	55.7	55.5	54.1	-1.3	-2.4%
	1,795.9	1,851.5	2,076.8	225.3	12.2%
State Agencies					
Health	1,090.0	1,175.3	1,253.4	78.0	6.6%
Human Resources	289.4	279.6	310.8	31.2	11.2%
Systems Reform Initiative	43.1	40.1	40.5	0.4	1.0%
Juvenile Justice	162.2	170.9	179.7	8.8	5.2%
Public Safety/Police	920.8	941.8	985.5	43.7	4.6%
Higher Education	961.3	967.3	1,004.0	36.7	3.8%
Other Education	275.5	283.3	307.8	24.5	8.7%
Agric./Nat'l Res./Environment	147.3	150.5	153.6	3.1	2.1%
Other Executive Agencies	553.2	499.4	499.0	-0.4	-0.1%
Judicial/Legislative	316.5	329.4	337.5	8.0	2.4%
	4,759.3	4,837.7	5,071.9	234.1	4.8%
Continue Hiring Freeze			-40.0	-40.0	n.a.
Deficiencies		100.0	0.0	-100.0	-100.0%
Subtotal	\$10,042.8	\$10,489.1	\$11,173.5	\$684.3	6.5%
Capital	366.4	49.6	47.4	-2.2	-4.4%
Reserve Fund	176.8	181.0	0.0	-181.0	-100.0%
Appropriations	\$10,586.0	\$10,719.7	\$11,220.9	\$501.1	4.7%
Reversions	-25.0	-55.0	-25.0	30.0	-54.5%
Grand Total	\$10,561.0	\$10,664.7	\$11,195.9	\$531.1	5.0%

Note: The FY 2002 working appropriation reflects deficiency appropriations, legislative reductions to the deficiencies (\$0.9 million), and \$342.5 million in withdrawn appropriations.

Components of Budget Change

(\$ in Millions)

Summary of Budget Change	<u>Dollars</u>	<u>Share of Growth</u>
Ongoing Requirements/Entitlements	\$494.1	63%
Legislation	176.1	22%
Commitments	25.1	3%
State Agency Costs	<u>89.0</u>	<u>11%</u>
Subtotal Operating Budget	\$784.4	100%
PAYGO	-2.2	
Appropriation to Reserve Fund	-181.0	
Total Baseline Increase in State Expenditures	\$601.2	
Less Deficiency Appropriations	<u>-100.0</u>	
Total	\$501.2	

Detail on Components

(\$ in Millions)

Ongoing Requirements/Entitlements		\$494.1
Education and Libraries Formula	\$204.4	
Medical Assistance -- enrollment, inflation, MCO rates	176.7	
Mental Hygiene -- inflation, utilization, and underfunding in fiscal 2003	40.2	
Foster Care -- cost per case and lower federal fund attainment	35.9	
Debt Service	15.1	
Federal Children's Health Insurance Program Block Grant exhausted	13.0	
Higher Education (St. Mary College, Community Colleges, BCCC, Sellinger)	11.9	
Private Donation Incentive Grants -- fully fund commitments	11.6	
Formula aid to local governments for police protection and health	2.6	
Maryland School for the Deaf	1.7	
Mandated appropriation for Women, Infants, and Children Program/Other	0.9	
Homeowner's and Renters' Tax Credit Programs	-1.3	
Disparity Grant for low wealth counties	-18.5	
Legislation		176.1
Education Aid -- Chapter 288, Acts of 2002	147.4	
Wage initiative for providers serving developmentally disabled -- Chapter 722, Acts of 2001	11.2	
Substance Abuse Treatment Outcomes Partnership (STOP) -- Chapter 675, Acts of 2000	4.8	
Expand teacher scholarship program to part-time undergraduates -- Chapter 410, Acts of 2002	3.0	
Funding of circuit court law clerks -- Chapter 677, Acts of 2001	2.9	
Other legislation smaller than \$2 million each	6.9	

Detail on Components (Cont.)

(\$ in Millions)

Commitments		\$25.1
Annualize fiscal 2003 cost of developmental disabilities waiting list initiative	\$5.2	
Annualization of Maryland Community Choice Program --		
Medicaid Waiver for the Disabled	3.8	
First year of lease payments for wiring schools for technology project	3.3	
Per diem reimbursements for inmates in local facilities	3.3	
New facilities/facility expansions (African American Museum,		
Hargrove Court House, etc.)	3.2	
Higher Education -- funding for Office of Civil Rights agreement restored to		
\$6 million	2.6	
Increase scholarship fund by 4 percent to keep pace with tuition	2.4	
Other commitments smaller than \$1 million each	1.3	
State Agency Costs		89.0
Employee health insurance	37.0	
University System of Maryland and Morgan State University -- State share of		
ongoing expenses	33.4	
Employee increments	28.5	
Statewide turnover rate declines due to weak economy	26.0	
Programs funded with fund balance in FY 03 and general funds in FY 04	14.7	
Fund shifts from special to federal funds (DHR, Maryland Primary Care,		
Charlotte Hall, etc.)	14.7	
Underattainment of federal funds at DHR and MEMA	14.3	
Fund pay-for-performance bonus and restore match for deferred		
compensation to \$600	8.7	
Positions created by Board of Public Works during fiscal 2003	5.8	
Insurance charges rise due to State's claims experience	4.1	
Cost associated with juvenile justice caseload increases	3.9	
Public Safety (medical contract, food service, etc.)	3.3	
43 additional staff for Public Defender to handle workload	2.8	
Other changes	-10.2	
Reduction in Workers' Compensation charges due to elimination of deficit in		
operating account	-22.4	
Remove funds for one-time employee bonus	-23.8	
Annualized savings from Section 37 of the Budget Bill -- abolition of almost		
3,500 vacant positions	-51.8	
PAYGO		-2.2
State Reserve Fund		-181.0

Substitution of General Funds for Special Funds Contributes to Increases in Education and Medicaid

(\$ in Millions)

Education and Libraries Funding

	<u>FY 2003</u>	<u>FY 2004</u>	<u>Difference</u>	<u>% Diff</u>
General Funds	\$3,036.3	\$3,392.6	\$356.3	11.7%
Special Funds from Tobacco Tax	80.5	0.0	-80.5	-100.0%
Special Funds from Transitional Education Fund	33.3	0.0	-33.3	-100.0%
Cigarette Restitution Funds	10.1	7.6	-2.5	-24.8%
Other Special Funds	0.4	0.2	-0.2	-51.6%
Total	\$3,160.6	\$3,400.4	\$239.8	7.6%

Medical Assistance Funding

	<u>FY 2003</u>	<u>FY 2004</u>	<u>Difference</u>	<u>% Diff</u>
General Funds	\$1,600.4	\$1,791.1	\$190.7	11.9%
Cigarette Restitution Funds	104.0	40.9	-63.1	-60.7%
Other Special Funds	16.5	16.4	-0.1	-0.6%
Total State Support	\$1,720.9	\$1,848.4	\$127.5	7.4%

State Aid to Local Governments

- State aid to local governments accounts for about 25% of total State expenditures (general and special funds) and 35% of State general fund expenditures.
- Total State aid is projected at \$4.4 billion in fiscal 2004, representing a \$268.9 million or 6.5% increase over the prior fiscal year.
- Direct aid to county and municipal governments, school boards, library boards, community colleges, and local health departments is projected to increase by \$238.3 million or 6.4%.
- Retirement payments will increase by \$30.6 million or 8.1%.
- Since fiscal 1990, total State aid has increased at an average annual rate of 4.9%, and direct aid has increased at an average annual rate of 5.4%.

Summary of State Aid to Local Governments General and Special Funds (\$ in Millions)

<u>Fiscal Year</u>	<u>Direct State Aid</u>	<u>Retirement Payments</u>	<u>Total State Aid</u>	<u>Percent Change</u>
1990	\$1,903.0	\$333.1	\$2,236.1	
1991	1,956.2	358.5	2,314.7	3.5%
1992	1,840.8	350.9	2,191.6	-5.3%
1993	2,012.3	387.4	2,399.7	9.5%
1994	2,085.3	383.8	2,469.1	2.9%
1995	2,217.0	423.1	2,640.1	6.9%
1996	2,327.3	455.6	2,782.9	5.4%
1997	2,441.4	479.7	2,921.2	5.0%
1998	2,659.6	474.8	3,134.5	7.3%
1999	2,909.9	442.5	3,352.3	7.0%
2000	3,029.7	420.5	3,450.3	2.9%
2001	3,273.7	389.8	3,663.5	6.2%
2002	3,502.9	349.9	3,852.8	5.2%
2003	3,743.5	377.7	4,121.1	7.0%
2004	3,981.8	408.3	4,390.1	6.5%

Significant Increase in State Education Funding

- Funding for public schools accounts for most of the increase in State aid (88%). Public schools are projected to receive an additional \$208.2 million in direct aid in fiscal 2004 and \$29 million in teachers' retirement payments.
- The State's financing of public schools changed considerably in fiscal 2004 due to the enactment of Chapter 288 of 2002, the Bridge to Excellence in Public Schools Act. The legislation phases out or eliminates 27 education aid programs from fiscal 2004 to 2008 in order to simplify the structure, while significantly increasing overall State financial support for public schools.

Smaller Increases in Other Aid Programs

- The community college aid formula increases by \$3.2 million or 2.0% in fiscal 2004. Due to budget constraints, the Budget Reconciliation and Financing Act of 2002 (Chapter 440) reduced the per pupil community college formula funding from 25% to 23.1% of per pupil funding at four-year institutions for both fiscal 2003 and 2004. The percentage increases to 24% in fiscal 2005 and 25% in fiscal 2006.
- Local libraries will receive an additional \$1.7 million, which reflects enhancements to both the formula aid and funding for the State library network.
- Local health departments are projected to receive an additional \$1.2 million. Unlike prior years, local health departments will not receive funding for salary adjustments in fiscal 2004.
- Program Open Space funding is projected to increase by \$14.6 million. Approximately one-half of the increase is due to an estimated increase in transfer tax revenues in fiscal 2004 and the other half is due to the revenue attainment adjustment in fiscal 2002.
- The disparity grant program will decrease by \$18.5 million or 16.1%. This reduction is due to the narrowing of the disparity in income tax receipts between less affluent counties and other counties in Maryland.

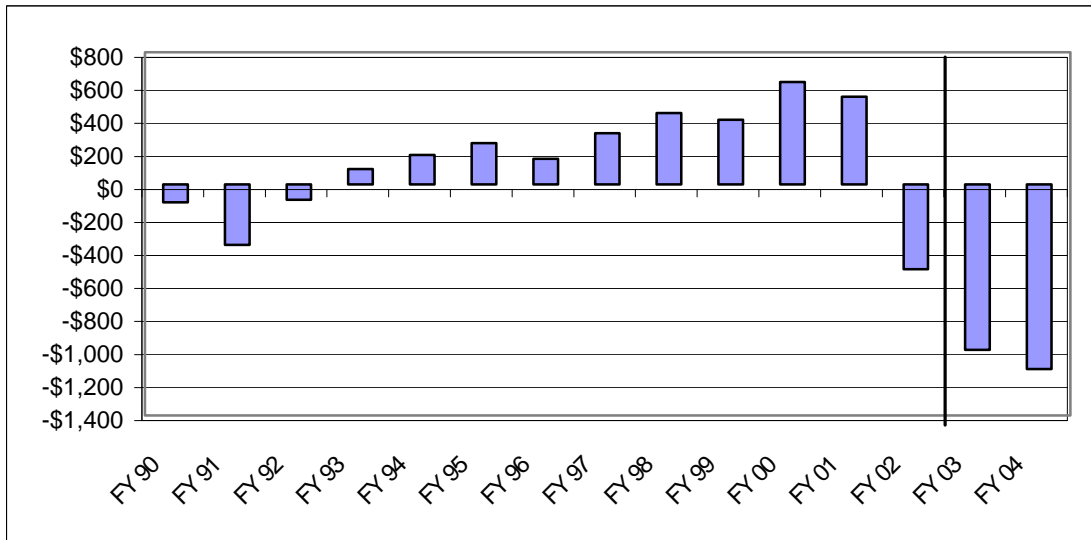
State Aid By Governmental Entity

Fiscal 2003-2004

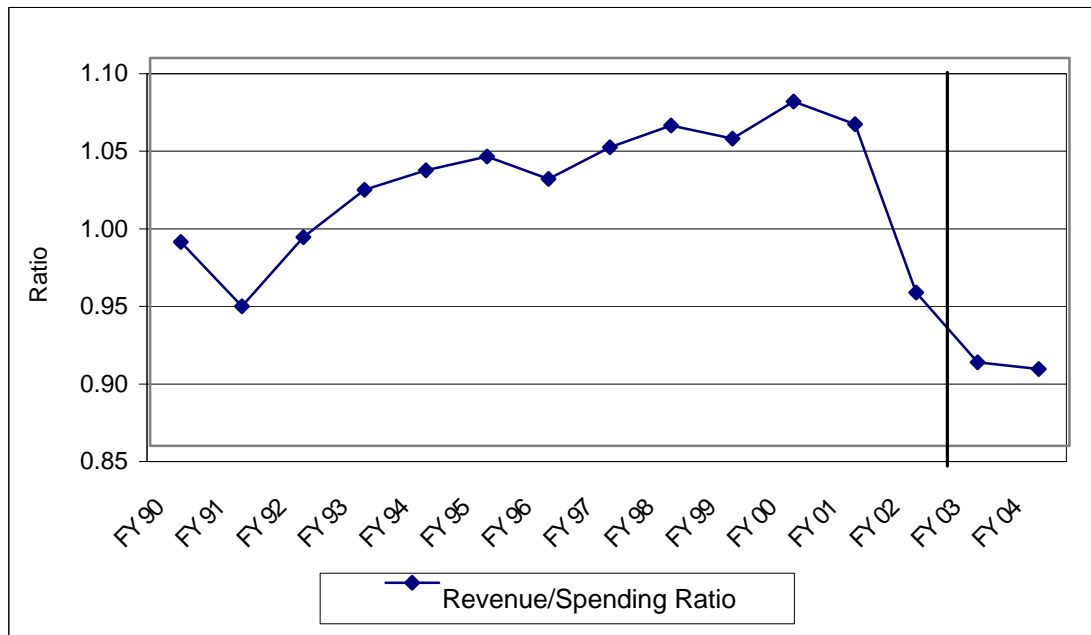
(\$ in Millions)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>Difference</u>	<u>Percent Change</u>
County/Municipal Aid				
Highway User Revenues	\$432.1	\$454.8	\$22.7	5.3
Disparity Grants	115.2	96.7	-18.5	-16.1
Police Aid	62.1	63.5	1.4	2.2
Program Open Space	18.3	32.9	14.6	79.9
Utility Restructuring Grant	30.6	30.6	0.0	0.0
Other Programs	<u>48.6</u>	<u>48.7</u>	<u>0.1</u>	<u>0.1</u>
Subtotal Direct Aid	706.9	727.2	20.3	2.9
Retirement -- Certain County Employees	<u>1.4</u>	<u>1.4</u>	<u>0.1</u>	<u>5.0</u>
Total County/Municipal Aid	708.3	728.6	20.3	2.9
Local Health	61.9	63.1	1.2	1.9
Public Schools				
Foundation Program	1,764.2	2,009.2	245.0	13.9
Compensatory Aid	141.9	347.5	205.5	144.8
Student Transportation	138.9	166.7	27.8	20.0
Special Education -- Formula	81.3	115.1	33.9	41.7
Special Education -- Nonpublic	100.2	110.2	10.0	10.0
Limited English Proficiency Grants	34.2	38.4	4.2	12.4
Teacher Salary Challenge Program	72.3	35.9	-36.4	-50.4
Baltimore City Partnership Grant	70.5	28.2	-42.3	-60.0
School Technology/Modernization	18.1	20.4	2.3	12.8
Other Ongoing Programs	97.2	95.8	-1.3	-1.4
Discontinued Programs	<u>240.5</u>	<u>0.0</u>	<u>-240.5</u>	<u>-100</u>
Subtotal Direct Aid	2,759.2	2,967.4	208.2	7.5
Teachers' Retirement	<u>354.5</u>	<u>383.6</u>	<u>29.0</u>	<u>8.2</u>
Total Public School Aid	3,113.7	3,351.0	237.2	7.6
Community Colleges				
Formula Program	158.8	162.0	3.2	2.0
Other	<u>17.0</u>	<u>20.8</u>	<u>3.9</u>	<u>22.8</u>
Subtotal Direct Aid	175.8	182.8	7.0	4.0
Faculty Retirement	<u>14.0</u>	<u>15.2</u>	<u>1.3</u>	<u>9.0</u>
Total Community College Aid	189.8	198.1	8.3	4.4
Libraries				
Formula Program	27.1	27.4	0.3	1.1
State Library Network	<u>12.6</u>	<u>13.9</u>	<u>1.4</u>	<u>11.0</u>
Subtotal Direct Aid	39.6	41.3	1.7	4.3
Librarians' Retirement	<u>7.8</u>	<u>8.0</u>	<u>0.2</u>	<u>3.0</u>
Total Library Aid	47.4	49.3	1.9	4.0
Total State Aid	\$4,121.1	\$4,390.1	\$268.9	6.5

Ongoing Expenses Projected to Exceed Operating Revenues (\$ in Millions)



Ongoing Revenue Per Dollar of Operating Spending



General Fund Projections (\$ in Millions)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>Annual Growth Rate FY03-04</u>	<u>Avg. Annual Growth Rate FY04-08</u>
Revenues								
Individual Income	\$4,773	\$5,002	\$5,301	\$5,659	\$6,018	\$6,401	4.8%	6.4%
Sales and Use	2,726	2,862	3,016	3,180	3,344	3,510	5.0%	5.2%
Lottery	432	443	465	484	504	523	2.5%	4.2%
Other	1,501	1,722	1,697	1,734	1,776	1,831	14.7%	1.6%
Subtotal	\$9,432	\$10,029	\$10,480	\$11,057	\$11,643	\$12,265	6.3%	5.2%
Adjustments:								
Balance	\$309	\$0	\$0	\$0	\$0	\$0		
Transfer -- Rainy Day Fund	249	0	0	0	0	0		
Transfer -- Other Funds	85	0	0	0	0	0		
Total Revenues	\$10,075	\$10,029	\$10,480	\$11,057	\$11,643	\$12,265	-0.5%	5.2%
Expenditures								
Debt Service	\$184	\$199	\$253	\$297	\$322	\$338	8.2%	14.2%
Local Aid -- Education/Libraries	3,036	3,393	3,753	4,130	4,534	4,997	11.7%	10.2%
Local Aid -- Other	480	473	487	512	532	552	-1.3%	3.9%
Entitlements (includes deficiencies)	1,881	2,077	2,218	2,365	2,523	2,692	10.4%	6.7%
State Operations (includes deficiencies)	4,883	5,032	5,274	5,472	5,718	5,936	3.0%	4.2%
Reversions	-30	-25	-25	-25	-25	-25	-16.9%	0.0%
Subtotal	\$10,434	\$11,148	\$11,960	\$12,751	\$13,603	\$14,489	6.8%	6.8%
Capital	\$50	\$47	\$129	\$116	\$110	\$94	-4.4%	18.7%
Transfers	0	0	0	0	0	0	n.a.	n.a.
Reserve Fund	181	0	6	15	15	17	-100.0%	n.a.
Total Expenditures	\$10,665	\$11,196	\$12,095	\$12,882	\$13,729	\$14,601	5.0%	6.9%
Surplus (Shortfall)	-\$590	-\$1,167	-\$1,615	-\$1,825	-\$2,086	-\$2,335		
Annual Change		-578	-448	-210	-261	-249		
Revenue Stabilization Fund								
Ending Balance	\$494	\$507	\$526	\$554	\$584	\$615		
As a Percent of Revenues	5.2%	5.1%	5.0%	5.0%	5.0%	5.0%		
Ratio of Operating Revenues to Expenditures	0.90	0.90	0.88	0.87	0.86	0.85		

Out-Year Fiscal Changes under the Budget Reconciliation and Financing Act (BRFA) General Fund Only

(\$ in Millions)

BRFA Expenditure Reductions	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Alter pension contribution methodology	\$37.7	\$37.7	\$37.7	\$37.7
<i>Re-base community college aid formula</i>	13.2	7.1	0.0	0.0
<i>Re-base BCCC aid formula</i>	2.8	1.4	0.0	0.0
<i>Re-base "Selling" aid formula</i>	5.4	2.6	0.0	0.0
<i>Tourism Board</i>	2.5	1.5	1.5	0.0
Subtotal -- Expenditure Reductions	61.6	50.3	39.2	37.7
BRFA Revenue Increases				
<i>Reducing sales tax vendor credit</i>	11.1	0.0	0.0	0.0
Decoupling from federal estate tax	48.7	77.9	82.3	82.1
Decoupling from federal income tax -- tuition deduction	10.0	16.4	17.0	0.0
Sales tax on short-term vehicle rentals to general fund	25.3	25.9	25.9	26.4
Security interest filing fees to general fund	5.1	5.2	5.3	5.4
Personalized vehicle registration plates to general fund	1.7	1.8	1.9	2.0
Uninsured motorist penalties to general fund	12.9	12.9	12.9	12.9
Shortening abandoned property period	25.0	0.0	0.0	0.0
<i>Transfer tax revenue to general fund</i>	47.3	0.0	0.0	0.0
Subtotal -- Revenue Increases	187.1	140.1	145.3	128.8
Subtotal -- Net Effect (versus out-year forecast at enactment)	248.7	190.4	184.5	166.5

Note: Italics indicate actions that will expire.